

## (1) MATERIAL LITIGATION OR ARBITRATION

The Company has not been involved in any material litigation or arbitration.

## (2) ACQUISITION OF ASSETS

The Company applied a sum of RMB 141,829,782 from the balance of proceeds raised from the issue of A shares to acquire 188,650,000 shares in Yangtze Bridge Co. (representing 8.83% of the total share capital of the Yangtze Bridge Co.) held by 國家開發投資公司 (National Communications Investment Enterprise Company). An acquisition agreement was entered into with National Communications Investment Enterprise Company on 4th September 2001, the total consideration of which being RMB 244,189,503.25, the shortfall of the consideration was funded by the working capital of the Company.

Yangtze Bridge Co. is mainly engaged in the operation, management and collection of toll from vehicles using the Jiangyin Yangtze Bridge. Jiangyin Yangtze connects the Guangjing Expressway and Xicheng Expressway. The Company holds 85% of shareholding in both of these expressways. As such, a thoroughfare is formed connecting the Nanjing Nantong Highway and Xinjiang-Jiangdu Expressway on the North, and Shanghai-Nanjing Expressway on the south, making it an important section of the national trunk from Tongjiang to Sanya and the national trunk from Beijing to Shanghai.

Upon the completion of the acquisition, Yangtze Bridge Co. has become an associated company in which the Company holds a 26.66% interest. The acquisition has expanded the existing asset base of the Company and is complementary to the key growth areas of the Company's operations. The Board of Directors of the Company considers that with the Company's share in the profit of Yangtze Bridge Co. being increased by the acquisition, it will consequently become the new profit growth areas of the Company.

### (3) RELATED PARTY TRANSACTION OF MATERIAL IMPORTANCE

Parties are considered to be related, i.e. one of the parties has the ability, either directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial or operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

#### 1. Related parties of the Company

Name	Relationship
Communications Holding	The ultimate shareholder of the Company
Guangjing Xicheng	A Subsidiary of the Company
Shuangshilou	A Subsidiary of the Company
Jiangsu Bus	An Associate of the Company

#### 2. Related Party Transaction

In 2001, the Company had the following transaction of material importance with related companies:

##### Jiangsu Communications Holding Ltd.

The Company obtained a banking facility from the Jiangsu branch of the Bank of China in the amount of approximately US\$ 9,800,000 (equivalent to RMB 81,140,000) in 1998, which was intended to be used in purchasing machinery and equipment to be imported. On 31st December 2001, the balance of the undrawn facility amounted to approximately US\$ 2,912,000 (equivalent to RMB 18,142,000 (2000: US\$ 3,741,000, equivalent to RMB 30,979,000)). The above facility was guaranteed by Jiangsu Communications Holding Ltd.

As for the contract, agreement and any other documents in relation to the aforesaid related party transaction, the Company had made full disclosure. The contracts and agreements are in compliance with the requirements of the law both in form and in substance, and are fair and reasonable and in no way prejudicial to the interests of the Company and shareholders, and they have been executed and approved in accordance with the necessary procedures, which are also in compliance with the law. As the related parties in a related party transaction is the controlling shareholder of the Company, that is, Communications Holding, the Company has taken steps to protect the interests of minority shareholders, such that none of the interests of the minority shareholders shall be prejudiced.

The independent non-executive Directors of the Company have reviewed the related party transaction referred to above, and confirmed that:

- a. the transaction have been entered into by the Company in the ordinary course of its business;
- b. the transactions have been entered into either: (1) on normal commercial terms (the expression of which will be construed by reference to transactions of a similar nature and to be made by similar entities within the PRC); or (2) where there is no available comparison, on terms that are no less favourable than terms available to or from third parties.
- c. the transactions are fair and reasonable so far as the shareholders of the Company are concerned.

## (4) MATERIAL CONTRACTS AND THEIR PERFORMANCE

### 1. Material trusts, subcontracting or leasing

As at 31st December 2001, the Company had no material trusts, subcontracting or leasing arrangement.

### 2. Material guarantees

As at 31st December 2001, the Company had not provided any guarantee to any shareholder or related party or any other companies.

### 3. Entrusted financial management

During the reporting period, the Company placed for short-term entrusted investment management a sum of RMB 210,000,000 from its own capital. An entrusted asset management agreement for an amount of RMB 100,000,000 was entered into with Guotong Securities Co., Ltd. for a term from 19th March, 2001 to 19th March 2002 and an entrusted asset management agreement for an amount of RMB 110,000,000 was entered into with Suzhou Investment Company Limited for a term from 10th May 2001 to 10th May 2002. The aforesaid entrusted investment management had been approved by the Company's management. As at 31st December 2001, as the entrusted management agreements had not yet been due, the Company did not carry out any account settling. Considering the book value of the entrusted capital, it appears to be a break-even, and it is not necessary for the Company to make any provision as to the diminution in value of the investment for the time being. When the entrusted management agreements expire, the Company will withdraw the entrusted capital, and there is no intention for any entrusted financial management plan.

#### 4. Other material contracts

As at 31st December 2001, material contracts being performed by the Company include the followings:

- (1) In respect of the loan contracts (being performed) between the Company and the relevant bank with amount of RMB 587,363,768, which was guaranteed by Communications Holding. The major contract thereof was the refinancing agreement entered into by the Company (as borrower) and Bank of China Jiangsu Branch (as lender or "reloan bank") in Nanjing on 15th October 1998, pursuant to which: (1) amount granted and its use: as set out in the agreement the loan shall be used to satisfy the US\$9,804,269.50 foreign exchange requirement of the aggregate contractual amount of the commercial contract between China Import and Export Co., Ltd. and exporter INDRASCA, S.A in respect of the equipment and technology for Shanghai-Nanjing Expressway; (2) tenure: subject to the "Foreign Loan Agreement", the loan amount comprising governmental share could be withdrawn within 12 months after the commercial contract becomes effective and its initial repayment shall be made on 16th January 2007. The tenure of the loan shall be 30 years, with a grace period of 10 years and repayment period of 20 years. The loan shall be repayable by 40 equal semi-annual installments; the loan amount comprising the buyer's credit shares could be withdrawn within 10 months after the effective date of the commercial contract, and its initial repayment shall be made not later than July 1999. The tenure of the loan shall be 7 years. The loan shall be repayable by 14 equal semi-annual installments.
- (2) The Company entered into a contract entitled "Contract on Management of Operation and Maintenance of Nanjing Section of Nanjing-Lianyungang Expressway" (being executed) with the Nanjing-Lianyungang Expressway Management Office on 8th April 1999, pursuant to which, the Management Office was entrusted by the Company for the management of operation and maintenance of the Nanjing Section of Nanjing-Lianyungang Expressway, for a fee equivalent to 17% of the aggregate toll revenue of the section each year. The amount paid by the Company for 2001 totalled RMB 8,570,100.

#### (5) UNDERTAKINGS

1. The Board of Directors of the Company has undertaken, in respect of the profit distribution proposal for 2001, one dividend distribution of no less than 50% of the net profit of the year.

The profit distribution proposal for 2001 had been resolved by the Board of Directors. For details of the distribution, please see the section headed "Profit Distribution Proposal for the Year" in the Report of the Board of Directors.

2. During the reporting period, shareholders holding 5% or more of the shares capital of the Company had not made any disclosure either in the designated press or on websites regarding any undertakings.

## (6) APPOINTMENT OF ACCOUNTANTS

There has not been any change of auditors in the past three years.

At the General Meeting held on 8th June 2001, the Company resolved to retain Arthur Andersen & Co. and Arthur Andersen • Hua-Qiang Certified Public Accountants as the Company's overseas and domestic accountants.

In 2001, the audit fees paid to the Company's accountants amounted to RMB 1,250,000. The Company had not paid any other expenses. The traveling expenses were paid by itself. There was no expenses affecting its independence. The auditor has not provided other consultancy services other than auditing.

The audit fee for 2000 amounted to RMB 1,250,000.

Starting from 2002, the audit fees to be paid to its accountants shall be proposed by the Board of Directors to the General Meeting for approval and confirmation.

## (7) REGULATORY PUNISHMENT

During the year, there was no regulatory punishment imposed against the Company, any of its Directors or Senior Management Officers, nor was there any other public censure.

## (8) OTHER MAJOR EVENTS

### Merging of Guangjing Co. and Xicheng Co.

In order to reduce costs and streamline the corporate structure and enhance efficiency, the merger of the subsidiaries of the Company, Guangjing Expressway Co., Ltd. and Xicheng Expressway Co., Ltd., was completed on 12th April 2001 (being the date when the business license of the Jiangsu Guangjing Xicheng Expressway Co., Ltd. was issued). The shareholding of the Company in Guangjing Xicheng was the same as the respective original shareholdings (85%) in Guangjing Co. and Xicheng Co., and the newly merged company shall assume all the assets and liabilities of Guangjing Co. and Xicheng Co.

### Investment in Shuangshilou Hotel Co., Ltd.

In November, 2001, the Company established Shuangshilou Hotel Co., Ltd. with Gulou Service Company at Hunan Road, Gulou District, Nanjing. The Company's investment amounted to RMB 960,000, representing 95.05% of the capital of such company. Shuangshilou is engaged in the production and sales of Chinese food.